

# **Fiscal Services Division Legislative Services Agency Fiscal Note**

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HF 2532 - Public Pension, Substantive Changes (LSB 5334 HV.1)  
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Fiscal Note Version – as Amended and Passed by the House

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## **Description**

House File 2532, as amended and passed by the House, makes substantive changes to the Iowa Public Employees' Retirement System (IPERS) and the Iowa Judicial Retirement System. This Fiscal Note will examine the substantive changes with a significant cost.

### **IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (IPERS)**

The Bill increases the required contribution rate from regular IPERS members by 0.40% to 4.10%, and employer contributions by 0.60% to 6.35% in FY 2006.

The Bill makes numerous technical changes in order to establish a separate class of IPERS membership for sheriffs and sheriffs' deputies apart from airport firefighters. Airport firefighters are placed in the Protection Occupation class.

The Bill permits sheriffs and sheriffs' deputies who have at least 22 years of service to retire if they are at least 50 years of age, instead of waiting to the age of 55. The Bill further provides for a change in the distribution of contributions between employers and employees. Each employer and employee will contribute 50.0% of the actuarially determined cost. Currently, the employer pays 60.0% and the employee contributes 40.0%.

The Bill reduces from the current four months to one month; the time a licensed health care professional at a public hospital must leave covered employment in order to continue to receive a retirement benefit after returning to covered employment. This change is only effective for retirements during FY 2005 and FY 2006. A study and report is being requested to determine the impact of this change.

The Bill specifies that any interest earned by the Favorable Experience Dividend Reserve Account in excess of 7.5% will remain in the Regular IPERS Trust Account.

The Bill requires three studies:

- Pension Flexibility Study.
- Protection Occupation Membership Study.
- Licensed Health Care Professionals - Bona Fide Retirement Report.

## **Assumptions**

1. A 4.00% annual payroll growth is assumed.

2. Contribution rates will only be impacted by the changes in the Bill.
3. The number of members in each class and covered payroll for FY 2004 are as follows:

<u>EMPLOYER</u>	<u>MEMBERSHIP CLASS</u>	<u>MEMBERS</u>	<u>FY 2004 COVERED PAYROLL (\$ in millions)</u>
State	Regular	22,298	\$ 978.3
Counties	Regular	25,060	724.3
Cities	Regular	23,307	607.3
Schools	Regular	84,906	2,407.0
Other	Regular	8,901	281.7
Total		<u>164,472</u>	<u>\$ 4,998.6</u>
State	Airport Firefighters	57	\$ 2.5
Counties/ Cities	Sheriffs/Sheriffs' Deputies	1,555	\$ 70.9

4. The number of members in each class will remain constant.
5. Regular IPERS members currently contribute 3.70% of covered wage and employers contribute 5.75%.
6. Sheriffs and sheriffs' deputies and airport firefighters members would contribute 5.10% of covered wage and employers would contribute 7.66% in FY 2005, without the changes in this Bill.
7. Protection Occupation members would contribute 6.16% of covered wage and employers would contribute 9.23% in FY 2005, without the changes in this Bill.
8. The retirement rate for employees ages 50 through 54 is 30.0% for sheriffs and sheriffs' deputies.
9. The employer contribution for sheriffs and sheriffs' deputies will increase by 0.755% (a decrease of 1.280% due to the change in the contribution percentages and an increase of 2.035% due to the benefit enhancement) to 8.415%.
10. The employee contributions for sheriffs and sheriffs' deputies will increase by 3.315% (an increase of 1.280% due to the change in the contribution percentages and an increase of 2.035% due to the benefit enhancement) to 8.415%.

### **Fiscal Impact**

Regular IPERS employers' contribution will increase from 5.75% to 6.35% of covered wage beginning in FY 2006. The increase required by employer contributions is as follows:

- State - \$6.3 million.
- Counties - \$4.7 million.
- Cities - \$3.9 million.
- Schools - \$15.6 million.
- Other employers including townships, multi-unit employers, and utilities - \$1.8 million.
- Total employer increase - \$32.3 million.

Regular IPERS employees' contributions will increase from 3.70% to 4.10% of covered wage beginning in FY 2006. The total required increase for all employees, classified by their employer group, is as follows:

- State - an increase of \$4.2 million beginning in FY 2006. The average annual contribution by each employee will increase by \$190 beginning in FY 2006.
- Counties - an increase of \$3.1 million beginning in FY 2006. The average annual contribution by each employee will increase by \$125 beginning in FY 2006.

- Cities - an increase of \$2.6 million beginning in FY 2006. The average annual contribution by each employee will increase by \$113 beginning in FY 2006.
- Schools - an increase of \$10.4 million beginning in FY 2006. The average annual contribution by each employee will increase by \$123 beginning in FY 2006.
- Other employers including townships, multi-unit employers, and utilities - an increase of \$1.2 million beginning in FY 2006. The average annual contribution by each employee will increase by \$137 beginning in FY 2006.
- Total employee increase - an increase of \$21.5 million beginning in FY 2006. The average annual contribution by each employee will increase by \$131 beginning in FY 2006.

Placing the airport firefighters in the Protection Occupation class will result in the following contribution changes: The combined employer and employee rate will increase from 12.76% to 15.39% of covered wage beginning in FY 2005. The employer will pay 9.23%, an increase of 1.57% or a total State increase of \$41,000 for all airport firefighters. The employees will pay 6.16%, an increase of 1.06% or \$28,000 for all airport firefighter employees. The average employee will contribute an estimated additional \$500 beginning in FY 2005.

Changing the retirement age for sheriffs and sheriffs' deputies and the distribution of the contributions between employers and employees will result in the following contribution changes: The combined employer and employee rate will increase from 12.76% to 16.83% of covered wage beginning in FY 2005. The employer will pay 9.44%, an increase of 1.78% or \$1.3 million, and the employees will pay 7.39%, an increase of 2.29% or \$1.7 million. The average employee will contribute an estimated additional \$1,100 beginning in FY 2005.

The fiscal impact of the change for licensed health care professional on employers and employees cannot be determined without knowing, the size of the group, their covered payroll, and which employees would take advantage of the program. A study of this group is requested in this Bill.

As of December 31, 2003, the Favorable Experience Dividend Reserve Account has earned approximately \$35.0 million above the System's actuarial interest rate assumption of 7.5%. If the interest earned by the system does not change by the end of the current fiscal year, the Regular IPERS Trust Account will retain the \$35.0 million that would otherwise have been transferred to the Favorable Experience Dividend Reserve Account. The Regular IPERS Trust Account will retain more if the interest earned increases and less if the interest earned decreases. Any additional interest retained by the Regular IPERS Trust Account will go towards paying down the Systems estimated \$1.9 billion unfunded actuarial liability.

The cost of the three studies is as follows:

- Pension Flexibility Study will cost \$26,000.
- Protection Occupation Membership Study will cost \$5,100.
- Licensed Health Care Professionals - Bona Fide Retirement Report will cost \$17,000.

## **JUDICIAL RETIREMENT SYSTEM**

The Bill makes two changes to the Judicial Retirement System.

The Bill reduces the vesting requirement from six years to four years. When a judge becomes vested, the judge is eligible to obtain a retirement annuity rather than the return of the judge's contribution.

The Bill also reduces the number of years of service a judge must have in order to receive an unreduced retirement allowance from the current 25 years to 20 years.

### **Assumptions**

1. Most judges serve at least six years before retirement.
2. Covered payroll for the Judicial Retirement System is \$21.0 million annually.
3. Changing the eligibility for unreduced retirement benefits would increase the actuarially determined contribution rate for the State by 2.52% annually.

### **Fiscal Impact**

The reduction in the number of years to vest from six years to four years will not have a significant fiscal impact on the System.

Changing the eligibility for unreduced retirement benefits from the current provision of age 65 or 25 years of service to age 65 or 20 years of service would increase the actuarially determined contribution rate for the State by 2.52% or \$529,000 annually.

### **Sources**

Iowa Public Employees' Retirement System (IPERS)  
Milliman USA Consultants and Actuaries  
Iowa Judicial Retirement System

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The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

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